UBS Australian Small Companies

Quarterly Investment Option Update

31-December-2017

Availability

Product name	APIR
Flexible Super – Choice (Retirement)	AMP1329AU
Flexible Super – Choice (Super)	AMP1485AU
CustomSuper	AMP0469AU
Flexible Lifetime – Allocated Pension	AMP1094AU
Flexible Lifetime – Investments (Series 1)	AMP0019AU
Flexible Lifetime – Investments (Series 2)	AMP1398AU
Flexible Lifetime – Super	AMP0469AU
Flexible Lifetime – Term Pension	AMP1095AU
Growth Bond	AMP1194AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

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Overview

Aim & Strategy: To provide investors with a total return (after costs) in excess of the S&P/ASX Small Ordinaries Accumulation Index when measured over rolling 5 year periods. The portfolio is best suited to investors who seek a well-diversified portfolio of small capitalisation securities. Due to the inherent volatility of share markets, and in particular smaller capitalisation companies, investment returns will fluctuate and may even be negative in some periods. The portfolio is an actively managed portfolio of securities listed on recognised exchanges in Australia and New Zealand, or those the manager reasonably expects to list within 6 months. The portfolio may invest in financial derivatives to gain exposure to the Australian share market or to manage investment risk. Normally the portfolio will hold between 30 and 90 stocks with the majority of investments to be made in securities not in the S&P/ASX 100 Index, with the flexibility to also invest up to 25% of the portfolio into the S&P MidCap50 Index.

Investment category: Small capitalisation equities

Suggested Investment Timeframe: 5+ years

Relative Risk Rating: High

Investment Style: Core / Style neutral

Asset Allocation	Actual (%)	Range (%)
Australian & NZ Shares	92.42	90-100
Cash	7.58	0-10

Holdings

Industry Exposure	%
Materials	20.30
Consumer Discretionary	16.07
Information Technology	11.40
Real Estate	10.09
Health Care	9.59
Industrials	8.63
Financials	8.42
Energy	3.43
Consumer Staples	3.27
Telecommunication Services	-
Utilities	-

Top Ten Securities	%
Nextdc	5.37
Bapcor	3.88
Technology One	3.72
Pilbara Minerals	3.62
Steadfast	3.53
Eclipx	3.52
Worleyparsons	3.43
Synlait Milk	3.27
Gateway Lifestyle	3.22
Ooh!Media	3.16

Market Commentary

The S&P/ASX Small Ordinaries Index increased by 3.2% during December outperforming the ASX100 (1.7%). The Small Resources sector (+8.9%) outperformed the Small Industrials (1.6%).

Best performing sectors for December were IT Services (Aconex +50%, Wisetech +17%), Energy (AWE +31%, Sino Gas +29%), Precious Metals (St Barbara +19%, Perseus +15%) and Base Metals (Independence +13%, Sandfire +11%). The worst performing sectors during December were Retail (Retail Food Group -45%, Myer -16%), Automotive (ARB -5.8%), Agriculture (A2M -6.9%, Bega -6.2%), and Chemicals (Nufarm -1%).

Best performing stocks in December for the Small Ordinaries index were Aconex, Tox Free, AWE, Sino Gas and Sigma. Worst performers for the month were Retail Food Group, G8 Education , Myer, Accent and Silver Chef.

Investment Option Commentary

The largest positive contributors to portfolio performance during the December quarter were Pilbara Minerals, Next DC, Wisetech and Kidman Resources. Pilbara outperformed over the quarter as the market continued to digest the prospect of demand for lithium ion batteries for both automotive and static energy storage. The company also announced that it was considering downstream processing options for the production of Lithium Carbonate, the key material for battery production. The price of lithium carbonate also remained strong. Next DC improved on the back of announcing positive news surrounding progress toward the opening of its second data centres in each of Sydney, Melbourne and Brisbane. Wisetech rose after the bid, at a substantial premium for Aconex. Kidman Resources was, like Pilbara, a beneficiary of ongoing strength in the lithium carbonate market.

The main relative detractors during the December quarter were Cash, Collins Foods, Ainsworth, Technology One and RCR Tomlinson. During the December quarter the Fund held on average 7.5% cash. This caused a drag as the index rose 13.7% during the quarter. Collins Foods announced a weaker than expected 1H18 result in late November and the market continued to digest the impact of this announcement in early December. In addition the negative publicity surrounding Retail Food Group during December impacted several companies in the fast food sector that operate a franchise model. The fund manager do not believes that Collins Foods has the same issues within its franchise network. Ainsworth declined during November as it announced at its AGM that it expects that its FY18 profit will be skewed toward the second half of the year. Technology One, which is a large holding for us was merely flat during the quarter as the index rose over 13%, driven mainly by resources.

Outlook

The Australian economy continues to be travelling ok although there are some risk markers on the horizon. Recent data for retail sales has been unusually weak (partly due to very large utility price rises?) and there are also now clear signs that the Australian housing market is rolling over (…will this further impact on retail sales?). Nonetheless, inflation remains low and employment growth is strong. Official interest rate levels are expected to stay flat for at least the next 12 months and are unlikely to rise much even beyond that due to very high Australian household debt. The European and US economies are also showing sustained growth and China remains in an economic upswing.

Nevertheless there are some macro risks. Chinese gross debt is at very elevated levels and global quantitative easing measures need to be reversed at some point (and thus act as a growth brake). Other global challenges include rogue states, global terrorism, US politics and global record debt levels.

Overall, Australian small companies remain an attractive asset class. The fund's portfolio has a low exposure to the discretionary and consumer cyclical factors and instead is focused on well managed and growing businesses with high returns on capital, a quality franchise bias, lower debt levels (or net cash) and a more aligned management. Many also benefit from a number of structural tailwinds that the Fund believes may endure for years.

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